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**State:** Arkansas **Filing Company:** American Modern Select Insurance Company  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0003 Owner Occupied Homeowners  
**Product Name:** 085 HO-10 Specialty Homeowners  
**Project Name/Number:** Rate & Rule Revision/20130626-05

## Filing at a Glance

Company: American Modern Select Insurance Company  
Product Name: 085 HO-10 Specialty Homeowners  
State: Arkansas  
TOI: 04.0 Homeowners  
Sub-TOI: 04.0003 Owner Occupied Homeowners  
Filing Type: Rate/Rule  
Date Submitted: 11/05/2013  
SERFF Tr Num: AMMH-129279195  
SERFF Status: Closed-Filed  
State Tr Num:  
State Status:  
Co Tr Num: 20130626-05  
  
Effective Date: 03/18/2014  
Requested (New):  
Effective Date: 03/24/2014  
Requested (Renewal):  
Author(s): Michelle Warren  
Reviewer(s): Becky Harrington (primary)  
Disposition Date: 11/06/2013  
Disposition Status: Filed  
Effective Date (New): 03/18/2014  
Effective Date (Renewal): 03/24/2014

State Filing Description:

**State:** Arkansas **Filing Company:** American Modern Select Insurance Company  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0003 Owner Occupied Homeowners  
**Product Name:** 085 HO-10 Specialty Homeowners  
**Project Name/Number:** Rate & Rule Revision/20130626-05

## General Information

Project Name: Rate & Rule Revision Status of Filing in Domicile: Not Filed  
Project Number: 20130626-05 Domicile Status Comments:  
Reference Organization: Reference Number:  
Reference Title: Advisory Org. Circular:  
Filing Status Changed: 11/06/2013  
State Status Changed: Deemer Date:  
Created By: Michelle Warren Submitted By: Michelle Warren  
Corresponding Filing Tracking Number: 20130626-05F

### Filing Description:

American Modern Select Insurance Company submits for your review a rate and rule revision to our previously approved HO-10 Specialty Homeowners Program. Please see the attached Explanatory Memorandum under the Supporting Documentation tab for additional details about this filing.

## Company and Contact

### Filing Contact Information

Michelle Warren, Sales Administrator II mwarren@amig.com  
7000 Midland Blvd 800-759-9008 [Phone] 5265 [Ext]  
Amelia, OH 45102 513-947-4181 [FAX]

### Filing Company Information

American Modern Select CoCode: 38652 State of Domicile: Ohio  
Insurance Company Group Code: 361 Company Type:  
7000 Midland Blvd. Group Name: Munich Re Group Property/Casualty  
Amelia, OH 45102 FEIN Number: 38-2342976 State ID Number:  
(513) 759-9008 ext. [Phone]

## Filing Fees

Fee Required? Yes  
Fee Amount: \$100.00  
Retaliatory? No  
Fee Explanation: Rate/rule filing = \$100.00  
Per Company: No

Company	Amount	Date Processed	Transaction #
American Modern Select Insurance Company	\$100.00	11/05/2013	76264112

State:	Arkansas	Filing Company:	American Modern Select Insurance Company
TOI/Sub-TOI:	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
Product Name:	085 HO-10 Specialty Homeowners		
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## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	11/06/2013	11/06/2013

### Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted
Territory changes	Reviewer Note	Becky Harrington	11/06/2013	

<b>State:</b>	Arkansas	<b>Filing Company:</b>	American Modern Select Insurance Company
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
<b>Product Name:</b>	085 HO-10 Specialty Homeowners		
<b>Project Name/Number:</b>	Rate & Rule Revision/20130626-05		

## Disposition

Disposition Date: 11/06/2013  
Effective Date (New): 03/18/2014  
Effective Date (Renewal): 03/24/2014  
Status: Filed

Comment:

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where req'd):	Minimum % Change (where req'd):
American Modern Select Insurance Company	2.900%	2.820%	\$28,733	952	\$1,018,167	12.060%	-10.960%

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	Form RF-2 Loss Costs Only (not for workers' compensation)		Yes
Supporting Document	H-1 Homeowners Abstract	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey		Yes
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	Explanatory Memorandum	Filed	Yes
Supporting Document	Indications	Filed	Yes
Rate	Proposed manual pages	Filed	Yes

## Reviewer Note

territory alignment similar to DF filing AMMH-129276888

<b>State:</b>	Arkansas	<b>Filing Company:</b>	American Modern Select Insurance Company
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
<b>Product Name:</b>	085 HO-10 Specialty Homeowners		
<b>Project Name/Number:</b>	Rate & Rule Revision/20130626-05		

## Rate Information

Rate data applies to filing.

<b>Filing Method:</b>	File & use
<b>Rate Change Type:</b>	Increase
<b>Overall Percentage of Last Rate Revision:</b>	-0.010%
<b>Effective Date of Last Rate Revision:</b>	01/01/2012
<b>Filing Method of Last Filing:</b>	file & use

## Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where req'd):	Minimum % Change (where req'd):
American Modern Select Insurance Company	2.900%	2.820%	\$28,733	952	\$1,018,167	12.060%	-10.960%

State:	Arkansas	Filing Company:	American Modern Select Insurance Company
TOI/Sub-TOI:	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
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Project Name/Number:	Rate & Rule Revision/20130626-05		

## Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 11/06/2013	Proposed manual pages	T-1; R-1; CS-1; OC-1; PP-1	Replacement	AMMH-127386046	Proposed manual pages.pdf

**ARKANSAS**  
**AMERICAN MODERN SELECT INSURANCE COMPANY**  
**HO-10 SPECIALTY HOMEOWNER PROGRAM**

**TERRITORY DEFINITION**

Unless otherwise indicated, the rates and/or premiums apply to the entire state.

<b>Territory 70</b>	<b>Territory 71</b>	<b>Territory 72</b>	<b>Territory 73</b>	<b>Territory 74</b>	<b>Territory 75</b>
Remainder of State	Baxter Benton Boone Carroll Cleburne Conway Faulkner Franklin Fulton Independence Izard Johnson Logan Madison Marion Newton Perry Pope Searcy Sharp Stone Van Buren Washington Yell	Jefferson Pulaski	City of N. Little Rock City of Little Rock City of Pine Bluff	Chicot Crittenden Desha Lee Mississippi Phillips Poinsett St. Francis	Ashley Clay Craighead Cross Greene Jackson Lawrence Randolph Woodruff

**ARKANSAS**  
**AMERICAN MODERN SELECT INSURANCE COMPANY**  
**HO-10 SPECIALTY HOMEOWNER PROGRAM**

**OWNER OCCUPIED AND SEASONAL OCCUPIED**  
**HO-10 Program (1A7/0A7)**

Included Coverages with Optional Increase:

Coverage	Included Amount
Other Structures	10% of Coverage A
Personal Property	40% of Coverage A
Loss of Use	10% of Coverage A

Product	Flat Base Rate	Cov Relativity	Covg Incr	Base Rate per Incr	Min Prem Amount	Min Rate Value	Min Val Accept	UVRC Code
1A7	\$226.04	1.00	N/A	N/A	\$100	\$40,000	\$40,000	EH
0A7	\$218.40	1.00	N/A	N/A	\$100	\$40,000	\$40,000	EH

Territory Relativity Table					
70	71	72	73	74	75
1.00	0.90	1.60	2.00	1.60	1.12

Construction Type Relativity Table		
Frame	Masonry	Log
1.000	0.900	0.900

Protection Class Relativity Table					
Class	Factor	Class	Factor	Class	Factor
PC 1-5	1.000	PC 6	1.070	PC 7	1.150
PC 8	1.350	PC 8B, 9	1.900	PC 10	2.100

Age of Insured Relativity	
1-49 yrs	50 yrs +
1.000	0.950

Insurance Score Relativity Table	
Score	Factor
1-479	1.940
480-509	1.750
510-539	1.500
540-559	1.400
560-589	1.300
0, 590-709, No Hit / Thin	1.000
710-744	0.920
745-997	0.850

Age of Home Relativity Table	
Age of Home Range	Factor
0-1 yrs	0.900
2-3 yrs	0.920
4-5 yrs	0.940
6-7 yrs	0.960
8-10 yrs	0.980
11 yrs +	1.000

**ARKANSAS**  
**AMERICAN MODERN SELECT INSURANCE COMPANY**  
**HO-10 SPECIALTY HOMEOWNER PROGRAM**

**CREDITS & SURCHARGES**

The following Protective Device credits may be applied:

Credits			
Protective Devices*	Risk Codes	Description	Credit
Central Station Fire & Smoke Alarm	72	This system is connected to an independent and fully staffed security agent from which trained operators are available to act in case of a fire.	5%
Central Station Burglar Alarm	73	This system is connected to an independent and fully staffed security agent from which trained operators are available to act in case of a break in.	5%
Local Smoke and/or Burglar Alarm	E6	This system sets off a loud alarm on the premises if there is a break in or fire. It is designed to alert the inhabitants and neighbors of the break in.	2%
Deadbolts, Smoke Alarm and Fire Extinguisher	D6		2%
*Credits not to total more than 5%.			
Copies of alarm system certificates are required for a credit.			

The following credits may be applied:

Credits			
Credit Name	Codes	Credit	Important Information
New Home Purchase Credit	Add On NN	10% Credit	A 10% credit will be applied to the Total Premium for those homes that are new purchase for the customer. The home MUST be 0-10 years of age and purchased within the previous 90 days of the effective date. The credit will be removed at Policy Renewal. This credit is to be applied to the Total Premium before any Fees (Fees are not included).
Association/ Affinity Discount	Risk Code AG	5% credit per home per year	A discount will be applied if the insured is a member of an approved association/affinity group.

The following surcharges may be applied:

Surcharges			
Surcharge Name	Codes	Surcharge	Important Information
<b>Number of Families</b>			
1 Family	27	1.00	
2 Family	28	1.10	
<b>Number of Claims</b>			Surcharges not applicable to weather related claims.
0 Claims	L0	0.90	
1 Claim	L1	1.00	
2 Claims	L2	1.10	
3 Claims	L3	1.20	
<b>Supplemental Heating Device</b>	Add On H3	\$50	
<b>Wood/Wood Shake Roof</b>	P6	1.25	
<b>Roof Layers</b>	H9	1.00	Does the roof have 3 or more layers of roofing material?

**ARKANSAS**  
**AMERICAN MODERN SELECT INSURANCE COMPANY**  
**HO-10 SPECIALTY HOMEOWNER PROGRAM**

**OPTIONAL COVERAGES**

The policy may be written to include the following Optional Coverages:

Optional Coverage	
Coverage	12 Month Rate
Loss of Use	\$6.00 per \$1,000 of coverage (Not to exceed 20% of Cov A)
Other Structures	\$5.00 per \$1,000 of coverage
Other Structures Exclusion	\$3.00 credit
Enhanced Coverage Endorsement - \$10,000 aggregate limit	15% of Cov A Premium
Personal Property Replacement Cost	10% Surcharge to the Base Premium
Roof Exclusion	\$10.00 credit
Hobby Farming Endorsement	\$50.00
Limited Theft Coverage	\$10.00 for each \$1,000 of coverage
Water Backup and Sump Discharge or Overflow Coverage - \$250 Deductible	\$50.00
Identity Recovery - Not Subject to a Deductible	\$20.00
Equipment Breakdown - \$500 Deductible	\$25.00

<p style="text-align: center;"><b>ARKANSAS</b></p> <p style="text-align: center;"><b>AMERICAN MODERN SELECT INSURANCE COMPANY</b></p> <p style="text-align: center;"><b>HO-10 SPECIALTY HOMEOWNER PROGRAM</b></p>
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**PERSONAL PROPERTY**

(Support Product: 7A7)

**All premiums and rates contained in the Rate Section of this manual are annual.**

Support Product	Flat Base Rate	Base Rate per Incr PC 1-8, 8B, 9-10	Covg Incr	Min Prem	Min Rate Value	Min Value Accept	UVRC Code	Cov Relativity
7A7	N/A	\$5.00	\$1,000	N/A	\$1,000	\$1,000	N/A	1.00

State:	Arkansas	Filing Company:	American Modern Select Insurance Company
TOI/Sub-TOI:	04.0 Homeowners/04.0003 Owner Occupied Homeowners		
Product Name:	085 HO-10 Specialty Homeowners		
Project Name/Number:	Rate & Rule Revision/20130626-05		

## Supporting Document Schedules

Satisfied - Item:	H-1 Homeowners Abstract
Comments:	
Attachment(s):	H-1 Homeowners Abstract - AR 085 HO.pdf
Item Status:	Filed
Status Date:	11/06/2013

Satisfied - Item:	NAIC loss cost data entry document
Comments:	Please see the attached.
Attachment(s):	AR 085 HO FORM RF-1 Rate Filing Abstract.pdf
Item Status:	Filed
Status Date:	11/06/2013

Satisfied - Item:	Explanatory Memorandum
Comments:	Please see the attached Explanatory Memorandum
Attachment(s):	Explanatory Memorandum - Rates & Rules.pdf
Item Status:	Filed
Status Date:	11/06/2013

Satisfied - Item:	Indications
Comments:	Please see the attached
Attachment(s):	HO-10_AR_085_1Q13_filing.pdf
Item Status:	Filed
Status Date:	11/06/2013

## ARKANSAS INSURANCE DEPARTMENT

## FORM H-1 HOMEOWNERS ABSTRACT

INSTRUCTIONS: All questions must be answered. If the answer is "none" or "not applicable", so state. If all questions are not answered, the filing will not be accepted for review by the Department. Use a separate abstract for each company if filing for a group. Subsequent homeowners rate/rule submissions that do not alter the information contained herein need not include this form.

Company Name American Modern Select Insurance Company (Specialty Homeowner HO-10 program)

NAIC # (including group #) 361-38652

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact.

N/A

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.

Whenever a policy is written with Replacement Cost, our rating system uses Marshall & Swift/Boeckh (MSB) to determine the Replacement Cost of the home. This valuation system has been available to our agents since the Replacement Cost Settlement Option was made available under the American Modern Select Specialty Homeowners program in 2008.

3. If you require a minimum relationship between the amount of insurance to be written and the replacement value of the dwelling (contents) in order to purchase insurance, describe the procedures that are used.

In our rating system, if the home value the agent has selected falls either 20% above or 20% below the indicated replacement cost value from MSB, then they will be unable to issue the policy with a replacement cost settlement without submitting it to an underwriter for review with explanation. If the agent is not in agreement with the value returned by MSB, they are able to submit another replacement cost estimate using any additional replacement cost estimating sources they may have. They are able to work with our underwriters to arrive at a value that is acceptable to all parties, and will not leave the risk under or over insured.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.

On replacement cost policies, a construction cost indexing factor is used at renewal, as indicated by form 71908 that attaches to all replacement cost policies. The impact varies as construction costs are updated, and may increase or decrease annually to reflect the changes in the cost of materials and labor for homes by specific location.

5. Specify the percentage given for credit or discounts for the following:

- |   |                            |
|---|----------------------------|
| a. Fire Extinguisher  | <u>          </u> %        |
| b. Burglar Alarm  | <u>-5</u> %                |
| c. Smoke Alarm  | <u>-5</u> %                |
| d. Insured who has both homeowners and auto with your company | <u>          </u> %        |
| e. Deadbolt Locks   | <u>          </u> %        |
| f. Window or Door Locks                                       | <u>          </u> %        |
| g. Other (specify)  | <u>Deadbolts, Smo</u> %    |
|   | <u>Local Smoke &amp;</u> % |
|   | <u>          </u> %        |

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.

No

7. Specify the form(s) utilized in writing homeowners insurance. Indicate the Arkansas premium volume for each form.

	Form	Premium Volume
HO-10		\$1,018,167

8. Do you write homeowner risks which have aluminum, steel or vinyl siding? ☒ Yes ☐ No

9. Is there a surcharge on risks with wood heat?

Yes

If yes, state the surcharge

\$50

Does the surcharge apply to conventional fire places?

No

If yes, state the surcharge

N/A

THE INFORMATION PROVIDED IS CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.

Michelle Warren

Signature

Michelle Warren

Printed Name

State Relations Analyst I

Title

513-947-5265

Telephone Number

mwarren@amig.com

Email address

AID PC H-1 (1/06)

## NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	20130626-05
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2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	N/A
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	Company Name		Company NAIC Number
3.	A. American Modern Select Insurance Company	B.	38652

	Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)
4.	A. 4.0	B.	4.0003

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY				
			(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
HO-10	2.9%	2.82%					
TOTAL OVERALL EFFECT	2.9%	2.82%					

6.

5 Year History

Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2008	149	N/A	N/A	77	25	32.9%	92.7%
2009	285	3.34%	11/1/09	183	268	146.8%	109.6%
2010	460	4.03%	8/1/10	351	59	16.8%	62%
2011	668	-0.01%	1/1/12	534	405	75.8%	78%
2012	857	N/A	N/A	755	731	96.8%	56.9%

7.

Expense Constants	Selected Provisions
A. Total Production Expense	
B. General Expense	
C. Taxes, License & Fees	
D. Underwriting Profit & Contingencies	
E. Other (explain)	
F. TOTAL	

8. **N/A – this is not a Loss Cost Filing** Apply Lost Cost Factors to Future filings? (Y or N)

9. **12.06%** Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): 70

10. **-10.96%** Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): 70

**ARKANSAS  
AMERICAN MODERN SELECT INSURANCE COMPANY  
HO-10 SPECIALTY HOMEOWNER PROGRAM  
FILING MEMORANDUM – RATES & RULES**

American Modern Select Insurance Company is pleased to present revisions to its HO-10 Specialty Homeowner Program. We are requesting approval for an effective date of March 18, 2014 for new business and an effective date of March 24, 2014 for renewal business.

We are making revisions to our current rates and rules, as shown below.

**Territory Definitions**

- Added 2 new territories, Territory 74 and 75

**Rate**

- Added the 2 new territories in the Territory Relativity Table
- Added new Protection Class 8B in the Protection Class Relativity Table.

**Credit & Surcharges**

- Introducing an Association/Affinity Discount credit

**Optional Coverage**

- Added Equipment Breakdown Coverage - \$500 Deductible coverage

**Personal Property Rates**

- Added new Protection Class 8B to the Table.

To the best of our knowledge and belief, this filing is in compliance with the pertinent statutes and regulations of the state of Arkansas.

**American Modern Select Insurance Company**  
**Arkansas**  
**Specialty Homeowners**

**Exhibit 1**  
**Page 1**

Proposed Effective Date: 1/1/2014

	<b>Premium in Force at 3/31/2013</b>	<b>Premium in Force Distribution</b>	<b>Indication</b>
Specialty Homeowners	\$960,466	100.0%	2.9%

## **Explanatory Memorandum**

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The purpose of the indication is to evaluate the rate level adequacy of the above captioned program in this state. In the evaluation, we take historical premiums and losses from our experience period and project them into a future effective period - our estimate of the time period the proposed rates will be in effect. Data shown is on a direct basis, and is organized on a 12 month rolling accident year basis.

### **Assumptions and Methodologies**

1. On Exhibits 1 and 2 we show the overall rate level indication for this product. The data adjustments used and calculations are described in the following paragraphs.
2. Earned Premiums are adjusted to current rate levels by program and then trended using the factors described below.
  - a. Rate Level Adjustment Factors take into account any approved rate changes that have an impact on the experience period. Quarterly factors (rather than annual factors) are calculated to improve accuracy. We use the average policy term length of each program, and assume the premium is earned equally throughout experience quarters. The calculated factor reflects the final rate level divided by the average rate level for each quarter. These are weighted together to obtain the annual adjustments shown here. By applying this factor to past premium, the adjustment reflects the amount of premium earned at the current rate level. Exhibit 3 outlines the Rate Level History and Rate Level Adjustment Factors.
  - b. The Premium Trend projects the current level premium in our experience periods to the average date the proposed rates will be in effect. We estimate the change in premium values over time by fitting exponential curves to various periods of current level average earned premiums by program or coverage for the state. Historical and Prospective Premium Trend Factors are selected taking into consideration the number of years experience used in the indication. The Historical Trend selection is applied using a time period from the mid-point of the experience period to the midpoint of the latest quarter of data available. The Prospective Trend selection is applied using a time period starting where the historical factor ended to the midpoint of the time the rates are anticipated to be in effect. Please see Exhibit 4.
3. Incurred Losses and ALAE are adjusted using the factors described below.
  - a. If appropriate for the indication in question, catastrophe losses are subtracted from the total losses and treated separately.
  - b. The Loss & ALAE Trend Factor projects the value of losses in our experience periods to the average date the proposed rates will be in effect. We estimate the change in loss values over time by fitting exponential curves to 5 years (20 groups of rolling 4 quarters) of Accident Year frequency and severity data. We select historical and prospective frequency and severity trends taking into consideration the number of years experience used in the indication. These are multiplied together to obtain the pure premium trend. The Historical Pure Premium Trend is applied using a time period from the mid-point of the experience period to the mid-point of the latest quarter of data used. The Prospective Pure Premium Trend is applied using a time period starting where the historical period ends, to the midpoint of the time the rates are anticipated to be in effect. Please see Exhibit 5.

## **Explanatory Memorandum**

- c. Accident Year Incurred Losses & ALAE are used in the rate indication; therefore, losses for each year may not be fully developed. The Loss & ALAE Development Factor estimates the further development of these losses by analyzing historical patterns of American Modern Insurance Group non-catastrophe losses. We calculate quarterly factors and weight them together using each year's latest incurred losses to obtain annual numbers. Please see Exhibit 6.
  - d. A ULAE Factor is applied to the Incurred Loss & ALAE to obtain Incurred Losses & LAE. The factor is calculated based on the average ratio of historical ULAE to historical Incurred Loss & ALAE in the latest 2 years. Please see Exhibit 8.
  - e. The Catastrophe Load allows us to use a longer experience period to control our response to unpredictable large loss events. We rely on ISO to identify catastrophes. That definition is any event that causes a loss of at least \$25 million to the insurance industry and has a sufficient number of claims. Our adjustment involves removing such losses and applying a historical average. This provides incurred losses indicative of normal catastrophic activity for our experience period. Please see Exhibit 7 for a further description of the method used.
  - f. The Cat Factor is applied to the Trended, Adjusted Non-Cat IL & LAE to obtain the Catastrophe IL & LAE.
  - g. The Total Adjusted Incurred Loss and LAE is the sum of the Trended Adjusted IL & LAE Excl Cat and the Trended Adjusted Cat Incurred Loss & LAE .
- 4. The Adjusted Loss and LAE Ratio is the Total Trended Adjusted Incurred Loss & LAE divided by the Trended Current Level Earned Premium.
  - 5. Normally, Accident Year weights are judgmentally selected to place greater weight on the more recent year's experience. However, when a program is growing rapidly, accident year weights may be based on Earned Premiums to avoid having an earlier year affecting the indication more than it should. Consideration may also be given to using even weights on all years when the Adjusted Loss and LAE Ratio are extremely volatile by year.
  - 6. The Weighted Experience Loss and LAE Ratio is the weighted average of the individual years Adjusted Loss and LAE Ratios and the Accident Year Weights.

## **Explanatory Memorandum**

7. The Permissible Loss and LAE Ratio Fixed Expense Ratio and Variable Permissible Loss Ratio Calculations may be found in Exhibit 9. This calculation includes determination of a profit provision.
  - a. The derivation of the Pre-Paid Commissions and Taxes, Licenses and Fees may be found at the bottom of this exhibit. Other Acquisition and General Expenses are based on Countrywide, Company Data for the Program being evaluated. The Reinsurance Expense is designed to cover the cost of our catastrophe and excess of loss experience contracts. It is a net provision determined by reinsurance premium minus estimated reinsurance recoveries.
  - b. The Profit Provision is based on a 15% Targeted After Tax Return on Equity and a 1.8:1 Targeted Premium to Surplus Ratio.
  - c. Return on Investment Income is based on the Clifford/Sterling Formula. This calculation, and an explanation of the calculation, may be found in Exhibit 10.
8. The Complement of Credibility is the Trended Permissible Loss Ratio. A Loss Ratio Trend is determined based on the prospective premium and loss trends. A time exponent based on the time from our last revision to the proposed effective date, capped at 1 years, is applied. Exhibit 11 contains the calculations.
9. Credibility is based on the square root rule, with full credibility at 25000 Earned Exposures.
10. The Credibility Weighted Loss and LAE Ratio is calculated by credibility weighting the Weighted Experience Loss & LAE Ratio and the Complement of Credibility - Trended Permissible.
11. The Indicated Rate Level Change is calculated as the  $((\text{Credibility Weighted Loss \& LAE Ratio} + \text{Fixed Expense Ratio}) / \text{Variable Expense Ratio}) - 1$

**American Modern Select Insurance Company**  
**Arkansas**  
**Specialty Homeowners**

**Exhibit 2**  
**Page 1**

**Rate Level Indications**

	Accident Year Ending				
	3/31/2009	3/31/2010	3/31/2011	3/31/2012	3/31/2013
(1) Earned Exposures	118	247	425	610	804
(2) Earned Premium	107,273	216,356	388,901	592,028	821,733
(3) Rate Level Adjustment Factor	1.077	1.073	1.034	1.002	1.000
(4) Current Level Earned Premium	115,563	232,092	402,084	593,044	821,675
(5) Premium Trend Factor	1.392	1.307	1.228	1.153	1.082
(6) Trended Current Level Earned Premium	160,864	303,345	493,759	683,780	889,052
(7) Total Incurred Losses & ALAE	30,049	280,583	77,876	469,277	674,990
(8) Catastrophe Incurred Losses and ALAE	16,843	179,732	8,640	241,840	1,916
(9) IL & ALAE Excl Cat	13,206	100,850	69,237	227,437	673,073
(10) Incurred Loss & ALAE Trend Factor	0.967	0.970	0.973	0.976	0.978
(11) Incurred Loss & ALAE Development Factor	0.999	0.998	1.001	1.008	1.053
(12) ULAE Factor (to IL & ALAE)	1.011	1.011	1.011	1.011	1.011
(13) Trended Adjusted IL & LAE Excl Cat	12,898	98,703	68,177	226,216	700,779
(14) Catastrophe Factor	0.289	0.289	0.289	0.289	0.289
(15) Trended Adjusted Cat Incurred Loss & LAE	3,728	28,525	19,703	65,376	202,525
(16) Total Trended Adjusted Incurred Loss & LAE	16,626	127,228	87,880	291,592	903,304
(17) Adjusted Loss & LAE Ratio *	0.103	0.419	0.178	0.426	1.016
(18) Accident Year Weights	0.05	0.10	0.18	0.28	0.39
(19) Non-Catastrophe Reported Claim Counts	17	22	34	61	79
(20) Weighted Experience Loss & LAE Ratio					0.595
(21) Permissible Loss & LAE Ratio					0.500
(22) Fixed Expense Ratio					0.009
(23) Variable Expense Ratio					0.491
(24) Complement of Credibility - Trended Permissible					0.481
(25) Credibility (Square Root Rule, Full Credibility = 25000 Earned Exposures)					0.297
(26) Credibility Weighted Loss & LAE Ratio					0.515
(27) <b>Credibility Weighted Indicated Rate Level Change</b>					<b>2.9%</b>

Rate History

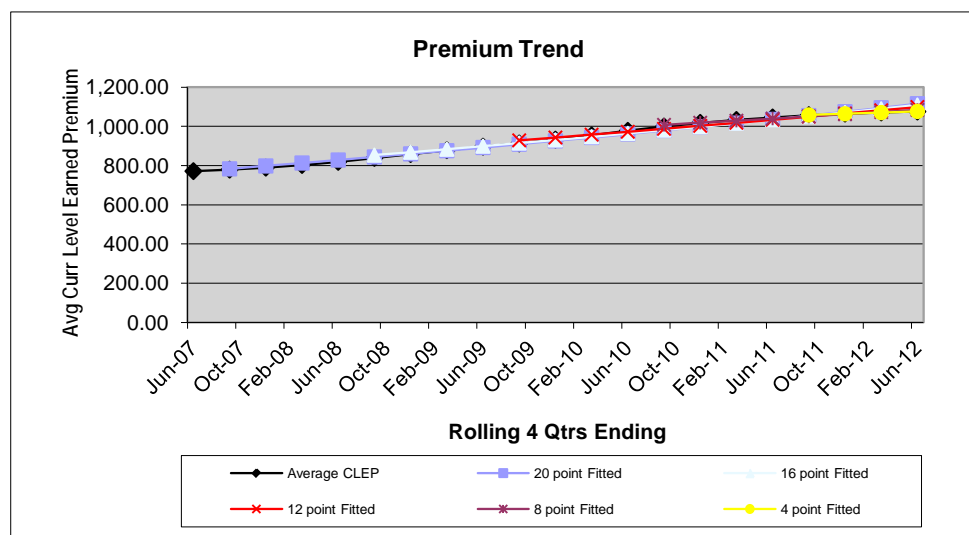
Rate Changes	
Effective Date	HO-10
12/24/2011	0.0%
8/1/2010	4.0%
11/1/2009	3.4%
12/15/2007	0.0%

Rate Level Adjustment Factor	
Accident Year Ending	HO-10
3/31/2009	1.077
3/31/2010	1.073
3/31/2011	1.034
3/31/2012	1.002
3/31/2013	1.000

Premium Trend

4 Qtrs Ending	Current Level Earned Premium	Earned Exposures	Average CLEP	20 point Fitted	16 point Fitted	12 point Fitted	8 point Fitted	4 point Fitted
6/30/2007	4,420,442	5,731	771.34					
9/30/2007	4,549,145	5,840	778.96	783.04				
12/31/2007	4,823,495	6,113	789.08	797.75				
3/31/2008	5,234,793	6,521	802.81	812.74				
6/30/2008	5,795,130	7,078	818.72	828.01				
9/30/2008	6,505,944	7,756	838.88	843.57	852.92			
12/31/2008	7,295,551	8,497	858.58	859.42	867.96			
3/31/2009	8,135,124	9,265	878.06	875.56	883.26			
6/30/2009	9,036,791	10,084	896.18	892.02	898.83			
9/30/2009	10,036,938	11,000	912.48	908.78	914.67	928.57		
12/31/2009	11,289,300	12,112	932.09	925.85	930.80	942.87		
3/31/2010	12,770,583	13,392	953.59	943.25	947.21	957.40		
6/30/2010	14,547,258	14,890	977.00	960.97	963.91	972.14		
9/30/2010	16,492,524	16,508	999.05	979.03	980.90	987.11	1,007.67	
12/31/2010	18,414,824	18,094	1,017.71	997.42	998.19	1,002.32	1,018.20	
3/31/2011	20,359,707	19,719	1,032.47	1,016.16	1,015.79	1,017.75	1,028.84	
6/30/2011	22,423,509	21,453	1,045.22	1,035.26	1,033.70	1,033.43	1,039.59	
9/30/2011	24,843,275	23,502	1,057.09	1,054.71	1,051.92	1,049.35	1,050.45	1,057.94
12/31/2011	27,566,831	25,886	1,064.92	1,074.53	1,070.47	1,065.51	1,061.43	1,063.97
3/31/2012	30,552,113	28,535	1,070.71	1,094.72	1,089.34	1,081.92	1,072.52	1,070.03
6/30/2012	33,740,073	31,376	1,075.36	1,115.29	1,108.55	1,098.58	1,083.73	1,076.13

Annual Premium Trend	
20 point fit	7.7%
16 point fit	7.2%
12 point fit	6.3%
8 point fit	4.2%
4 point fit	2.3%
Historical Selected	6.5%
Prospective Selected	3.0%



Accident Year Ending	Trend Period						Trend Factor
	Historical			Prospective			
	Beginning	End	Time(Yrs)	Beginning	End	Time(Yrs)	
3/31/2009	9/30/2008	2/15/2013	4.375	2/15/2013	1/1/2015	1.878	1.392
3/31/2010	9/30/2009	2/15/2013	3.375	2/15/2013	1/1/2015	1.878	1.307
3/31/2011	9/30/2010	2/15/2013	2.375	2/15/2013	1/1/2015	1.878	1.228
3/31/2012	9/30/2011	2/15/2013	1.375	2/15/2013	1/1/2015	1.878	1.153
3/31/2013	9/30/2012	2/15/2013	0.375	2/15/2013	1/1/2015	1.878	1.082

Loss Trend

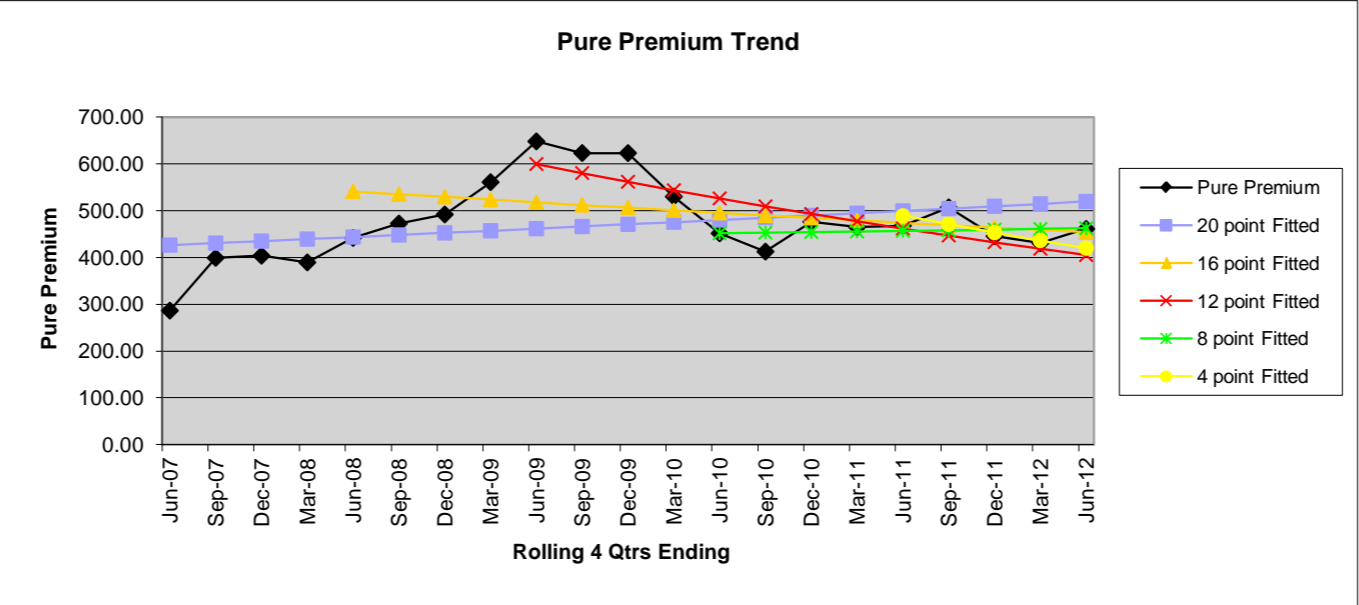
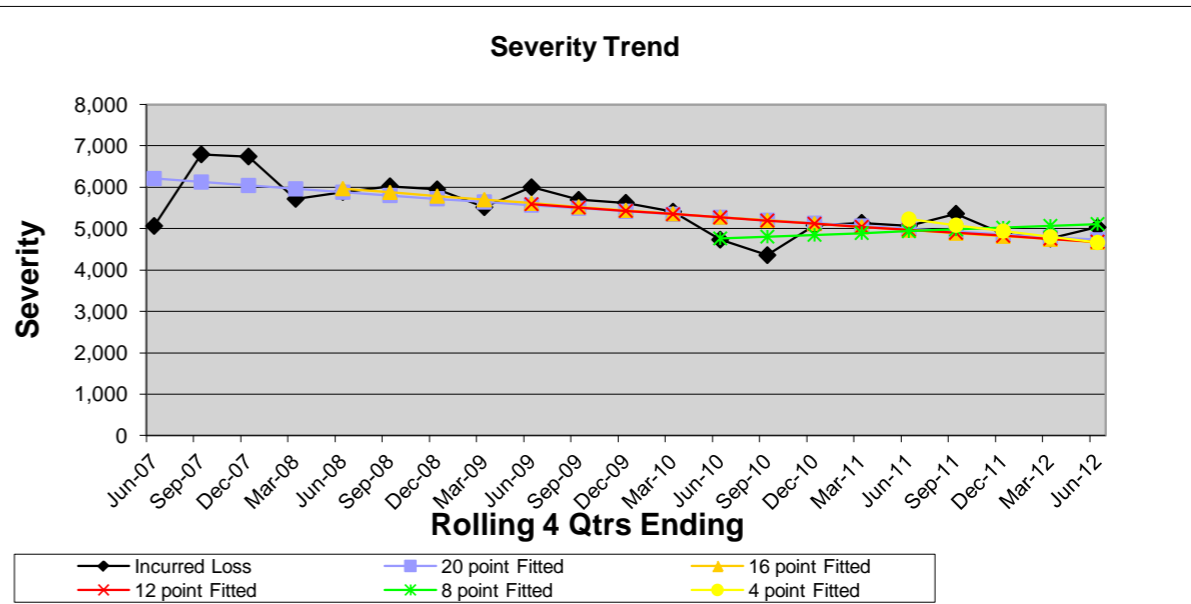
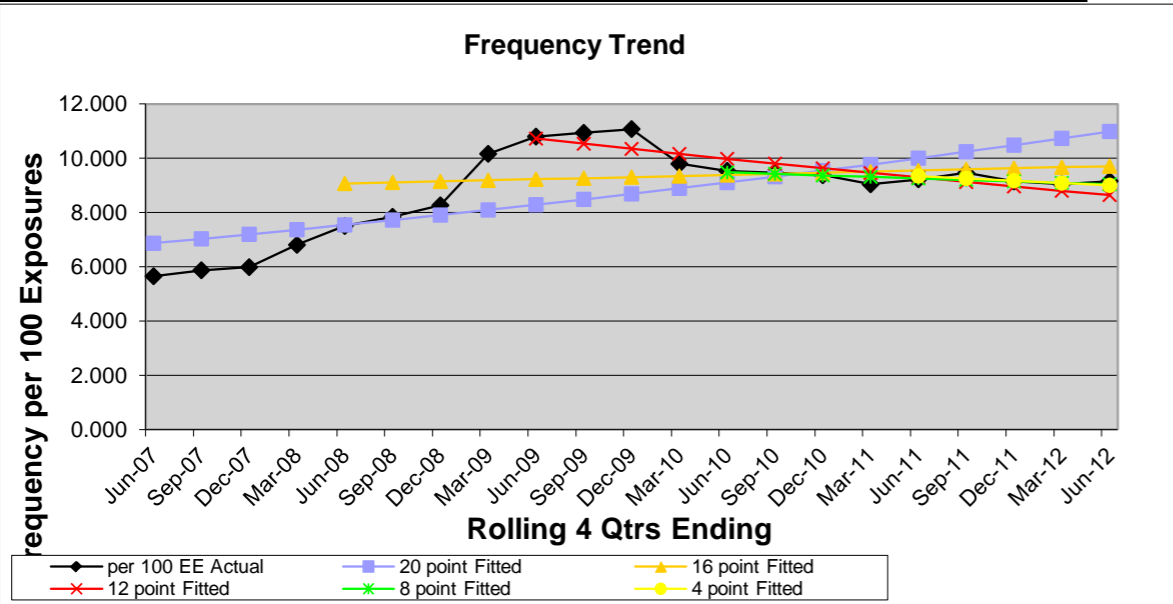
Loss Trend Based on Countrywide - American Modern Insurance Group Data Excluding Catastrophe Losses

Accident Period 4 Qtrs Ending	Ultimate Reported Claim Counts	Ultimate Non-Cat Incurred Loss & ALAE	Earned Exposures	Frequency					Severity						
				Frequency per 100 EE Actual	20 point Fitted	16 point Fitted	12 point Fitted	8 point Fitted	4 point Fitted	Average Incurred Loss	20 point Fitted	16 point Fitted	12 point Fitted	8 point Fitted	4 point Fitted
6/30/2007	324	1,641,125	5,731	5.654	6.867					5,065	6,210				
9/30/2007	343	2,330,407	5,840	5.873	7.031					6,794	6,126				
12/31/2007	366	2,467,915	6,113	5.987	7.198					6,743	6,043				
3/31/2008	444	2,539,221	6,521	6.809	7.369					5,719	5,961				
6/30/2008	531	3,126,530	7,078	7.504	7.545	9.071				5,887	5,881	5,967			
9/30/2008	608	3,664,342	7,756	7.843	7.724	9.110				6,024	5,801	5,876			
12/31/2008	702	4,179,571	8,497	8.266	7.908	9.149				5,950	5,723	5,787			
3/31/2009	942	5,196,553	9,265	10.164	8.096	9.188				5,518	5,645	5,699			
6/30/2009	1,089	6,534,394	10,084	10.800	8.288	9.227	10.726			6,000	5,569	5,613	5,592		
9/30/2009	1,203	6,854,616	11,000	10.940	8.486	9.266	10.535			5,696	5,493	5,527	5,510		
12/31/2009	1,342	7,546,005	12,112	11.077	8.687	9.305	10.347			5,625	5,419	5,444	5,429		
3/31/2010	1,312	7,097,187	13,392	9.795	8.894	9.345	10.163			5,410	5,346	5,361	5,350		
6/30/2010	1,420	6,723,588	14,890	9.539	9.106	9.385	9.982	9.479		4,734	5,273	5,280	5,272	4,764	
9/30/2010	1,562	6,809,976	16,508	9.462	9.322	9.425	9.804	9.423		4,360	5,202	5,199	5,195	4,807	
12/31/2010	1,697	8,620,130	18,094	9.376	9.544	9.465	9.629	9.367		5,081	5,132	5,121	5,119	4,849	
3/31/2011	1,783	9,165,043	19,719	9.041	9.771	9.505	9.458	9.312		5,141	5,062	5,043	5,044	4,892	
6/30/2011	1,979	10,040,680	21,453	9.226	10.003	9.546	9.289	9.257	9.347	5,073	4,994	4,966	4,971	4,936	5,231
9/30/2011	2,223	11,916,960	23,502	9.459	10.241	9.587	9.124	9.203	9.260	5,361	4,926	4,891	4,898	4,980	5,084
12/31/2011	2,367	11,534,341	25,886	9.145	10.485	9.627	8.961	9.148	9.174	4,873	4,859	4,817	4,826	5,024	4,940
3/31/2012	2,581	12,284,804	28,535	9.044	10.734	9.668	8.802	9.094	9.089	4,760	4,794	4,744	4,756	5,069	4,801
6/30/2012	2,874	14,463,689	31,376	9.159	10.990	9.710	8.645	9.041	9.004	5,033	4,729	4,672	4,686	5,114	4,665

Accident Period 4 Qtrs Ending	Pure Premium					
	Pure Premium	20 point Fitted	16 point Fitted	12 point Fitted	8 point Fitted	4 point Fitted
6/30/2007	286.37	426.46				
9/30/2007	399.04	430.70				
12/31/2007	403.73	434.98				
3/31/2008	389.42	439.30				
6/30/2008	441.71	443.66	541.24			
9/30/2008	472.48	448.07	535.29			
12/31/2008	491.88	452.52	529.42			
3/31/2009	560.89	457.02	523.60			
6/30/2009	648.02	461.56	517.86	599.74		
9/30/2009	623.17	466.14	512.17	580.45		
12/31/2009	623.03	470.77	506.55	561.79		
3/31/2010	529.95	475.45	500.98	543.72		
6/30/2010	451.56	480.17	495.48	526.23	451.60	
9/30/2010	412.52	484.94	490.04	509.31	452.93	
12/31/2010	476.40	489.76	484.66	492.93	454.25	
3/31/2011	464.77	494.62	479.34	477.07	455.58	
6/30/2011	468.02	499.53	474.08	461.73	456.92	489.00
9/30/2011	507.07	504.50	468.87	446.88	458.26	470.77
12/31/2011	445.58	509.51	463.72	432.51	459.60	453.23
3/31/2012	430.52	514.57	458.63	418.60	460.94	436.34
6/30/2012	460.99	519.68	453.60	405.13	462.29	420.07

Annual Loss Trend			
	Frequency	Severity	Pure Premium
20 point fit	9.9%	-5.3%	4.0%
16 point fit	1.7%	-5.9%	-4.3%
12 point fit	-6.9%	-5.7%	-12.3%
8 point fit	-2.3%	3.6%	1.2%
4 point fit	-3.7%	-10.8%	-14.1%
Historical Selected	5.0%	-5.0%	-0.3%
Prospective Selected	-2.0%	1.0%	-1.0%

Accident Year Ending	Trend Period						Trend Factor
	Historical			Prospective			
	Beginning	End	Time(Yrs)	Beginning	End	Time(Yrs)	
3/31/2009	9/30/2008	11/15/2012	4.125	11/15/2012	1/1/2015	2.128	0.967
3/31/2010	9/30/2009	11/15/2012	3.125	11/15/2012	1/1/2015	2.128	0.970
3/31/2011	9/30/2010	11/15/2012	2.125	11/15/2012	1/1/2015	2.128	0.973
3/31/2012	9/30/2011	11/15/2012	1.125	11/15/2012	1/1/2015	2.128	0.976
3/31/2013	9/30/2012	11/15/2012	0.125	11/15/2012	1/1/2015	2.128	0.978



Loss & ALAE Development

Data shown is Countrywide Consolidated American Modern Insurance Group Homeowners

Cumulative Incurred Loss and ALAE Development

Accident Qtr Ending	Development Age																					
	3	6	9	12	15	18	21	24	27	30	33	36	39	42	45	48	51	54	57	60	63	66
Sep-06	566,966	609,660	631,944	640,817	643,455	664,674	664,674	432,523	432,523	381,773	381,773	383,207	383,207	383,207	383,207	383,207	383,207	383,207	383,207	383,207	383,207	383,304
Dec-06	1,024,117	1,040,501	1,037,744	1,048,429	864,139	878,091	871,251	871,251	870,258	1,024,010	887,202	887,202	887,202	887,202	887,202	887,202	887,202	887,202	887,202	887,202	886,126	886,221
Mar-07	1,734,774	1,641,289	1,573,568	1,588,874	1,601,535	1,621,773	1,621,675	1,601,324	1,601,824	1,601,824	1,601,824	1,601,824	1,601,824	1,601,824	1,601,824	1,601,824	1,601,824	1,601,984	1,601,984	1,601,984	1,602,052	1,602,052
Jun-07	554,639	607,698	638,658	639,530	636,480	589,313	589,313	589,557	608,650	610,438	610,416	610,416	610,416	610,416	610,416	610,416	610,416	595,916	596,648	596,989	596,989	
Sep-07	872,802	971,162	1,048,616	1,035,554	1,025,015	970,529	970,527	974,527	1,025,027	1,025,029	1,026,088	1,026,088	1,019,088	1,011,458	1,011,458	1,011,458	1,011,458	1,011,480	1,011,961	1,011,961		
Dec-07	598,412	641,723	670,930	671,043	589,548	569,645	569,645	569,645	569,645	569,843	569,843	569,843	569,843	569,843	569,843	569,843	569,843	569,933	569,933			
Mar-08	1,215,292	1,207,429	1,263,235	1,259,903	1,289,624	1,289,321	1,273,209	1,275,134	1,275,134	1,360,059	1,360,059	1,360,059	1,360,059	1,360,059	1,360,059	1,360,059	1,331,565	1,331,770	1,317,236			
Jun-08	1,535,163	1,790,032	1,744,590	1,762,447	1,690,816	1,691,816	1,688,307	1,689,008	1,765,828	1,957,328	1,957,291	1,957,291	1,971,105	1,996,319	1,910,746	1,923,195	1,889,231					
Sep-08	1,330,833	1,640,580	1,656,394	1,695,751	1,731,942	1,652,930	1,658,736	1,664,736	1,709,086	1,709,421	1,733,719	1,821,733	1,818,227	1,818,551	1,820,619	1,820,629						
Dec-08	1,405,588	1,446,941	1,437,674	1,409,281	1,418,942	1,385,801	1,403,840	1,404,000	1,419,000	1,421,292	1,409,229	1,415,229	1,429,946	1,430,360	1,430,520							
Mar-09	2,196,516	2,302,117	2,225,957	2,217,233	2,221,074	2,221,096	2,180,289	2,251,984	2,192,156	2,252,765	2,252,765	2,255,105	2,199,367	2,198,867								
Jun-09	2,649,761	2,562,284	2,836,403	2,857,712	2,860,824	2,908,002	2,896,795	2,897,247	2,924,222	2,854,995	2,857,198	2,860,633	2,860,633									
Sep-09	2,188,695	2,153,828	2,255,403	2,294,620	2,322,630	2,383,488	2,434,107	2,444,471	2,389,801	2,402,013	2,406,610	2,374,723										
Dec-09	2,420,229	2,498,283	2,597,850	2,567,027	2,484,006	2,486,957	2,489,615	2,489,615	2,489,615	2,476,173	2,476,173											
Mar-10	2,015,066	2,201,339	2,256,143	2,228,343	2,319,204	2,312,478	2,152,544	2,142,308	2,134,012	2,135,897												
Jun-10	2,457,152	2,682,043	2,711,588	2,714,328	2,883,954	2,843,299	2,864,121	2,868,538	2,964,887													
Sep-10	2,028,048	2,085,757	2,131,690	2,171,494	2,158,542	2,481,576	2,481,576	2,269,784														
Dec-10	3,567,095	3,729,723	3,877,850	3,924,041	3,855,746	3,852,910	3,880,713															
Mar-11	2,544,246	2,753,948	2,760,362	2,638,339	2,703,670	2,661,079																
Jun-11	2,575,390	3,153,439	3,330,508	3,385,642	3,212,435																	
Sep-11	3,857,764	3,973,211	4,175,661	4,104,045																		
Dec-11	2,876,136	3,278,328	3,350,157																			
Mar-12	2,546,035	2,896,085																				
Jun-12	4,749,913																					

Historical Development Factors

Accident Qtr Ending	3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33	33 to 36	36 to 39	39 to 42	42 to 45	45 to 48	48 to 51	51 to 54	54 to 57	57 to 60	60 to 63	63 to 66
Sep-06	1.075	1.037	1.014	1.004	1.033	1.000	0.651	1.000	0.883	1.000	1.004	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Dec-06	1.016	0.997	1.010	0.824	1.016	0.992	1.000	0.999	1.177	0.866	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.999	1.000
Mar-07	0.946	0.959	1.010	1.008	1.013	1.000	0.987	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Jun-07	1.096	1.051	1.001	0.995	0.926	1.000	1.000	1.032	1.003	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.976	1.001	1.001	1.000	
Sep-07	1.113	1.080	0.988	0.990	0.947	1.000	1.004	1.052	1.000	1.001	1.000	0.993	0.993	1.000	1.000	1.000	1.000	1.000	1.000		
Dec-07	1.072	1.046	1.000	0.879	0.966	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000			
Mar-08	0.994	1.046	0.997	1.024	1.000	0.988	1.002	1.000	1.067	1.000	1.000	1.000	1.000	1.000	0.979	1.000	0.989				
Jun-08	1.166	0.975	1.010	0.959	1.001	0.998	1.000	1.045	1.108	1.000	1.000	1.007	1.013	0.957	1.007	0.982					
Sep-08	1.233	1.010	1.024	1.021	0.954	1.004	1.004	1.027	1.000	1.014	1.051	0.998	1.000	1.001	1.000						
Dec-08	1.029	0.994	0.980	1.007	0.977	1.013	1.000	1.011	1.002	0.992	1.004	1.010	1.000	1.000							
Mar-09	1.048	0.967	0.996	1.002	1.000	0.982	1.033	0.973	1.028	1.000	1.001	0.975	1.000								
Jun-09	0.967	1.107	1.008	1.001	1.016	0.996	1.000	1.009	0.976	1.001	1.001	1.000									
Sep-09	0.984	1.047	1.017	1.012	1.026	1.021	1.004	0.978	1.005	1.002	0.987										
Dec-09	1.032	1.040	0.988	0.968	1.001	1.001	1.000	1.000	0.995	1.000											
Mar-10	1.092	1.025	0.988	1.041	0.997	0.931	0.995	0.996	1.001												
Jun-10	1.092	1.011	1.001	1.062	0.986	1.007	1.002	1.034													
Sep-10	1.028	1.022	1.019	0.994	1.150	1.000	0.915														
Dec-10	1.046	1.040	1.012	0.983	0.999	1.007															
Mar-11	1.082	1.002	0.956	1.025	0.984																
Jun-11	1.224	1.056	1.017	0.949																	
Sep-11	1.030	1.051	0.983																		
Dec-11	1.140	1.022																			
Mar-12	1.137																				

Averages	3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33	33 to 36	36 to 39	39 to 42	42 to 45	45 to 48	48 to 51	51 to 54	54 to 57	57 to 60	60 to 63	63 to 66	66 to Ult
4 Qtrs Average	1.133	1.033	0.992	0.988	1.030	0.986	0.978	1.002	0.994	1.001	0.998	0.996	1.003	0.990	0.997	0.996	0.991	1.000	1.000	1.000		
8 Qtrs Average	1.097	1.029	0.996	1.004	1.020	0.993	0.994	1.004	1.014	1.001	1.006	0.998	1.001	0.995	0.998	0.998						
12 Qtrs Average	1.071	1.033	0.997	1.005	1.008	0.996	0.996	1.010	1.015	1.001	1.004	0.999										
8 Qtrs Average ex H/L	1.088	1.029	0.998	1.004	1.004	0.999	1.000	1.004	1.005	1.001	1.001	1.000	1.000	1.000	1.000	1.000						
8 Qtrs Vol Weighted	1.094	1.031	0.995	1.001	1.016	0.995	0.993	1.003	1.011	1.001	1.005	0.997	1.002	0.992	0.998	0.996						
12 Qtrs Vol Weighted	1.071	1.034	0.997	1.002	1.008	0.996	0.995	1.008	1.013	1.001	1.004	0.998										
12 Qtr Avg ex H/L	1.057	1.032	0.999	1.005	0.999	1.000	1.001	1.010	1.010	1.000	1.001	1.000										

Selected Factors	3 to 6	6 to 9	9 to 12	12 to 15	15 to 18	18 to 21	21 to 24	24 to 27	27 to 30	30 to 33	33 to 36	36 to 39	39 to 42	42 to 45	45 to 48	48 to 51	51 to 54	54 to 57	57 to 60	60 to 63	63 to 66	66 to Ult
Age to Age Factors	1.088	1.028	0.998	1.001	1.004	0.999	1.000	1.003	1.005	1.000	1.001	1.000	1.000	1.000	1.000	1.000	0.998	1.000	1.000	1.000	1.000	1.000

	3 to Ult	6 to Ult	9 to Ult	12 to Ult	15 to Ult	18 to Ult	21 to Ult	24 to Ult	27 to Ult	30 to Ult	33 to Ult	36 to Ult	39 to Ult	42 to Ult	45 to Ult	48 to Ult	51 to Ult	54 to Ult	57 to Ult	60 to Ult	63 to
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**American Modern Select Insurance Company**  
**Arkansas**  
**Specialty Homeowners**  
**All Classes**

**Exhibit 7**

**Page 1**

**Catastrophe Factor**

Data shown is Arkansas American Modern Insurance Group - Dwelling

Accident Year Ending	(1) Catastrophe Losses*	(2) All Losses*	(3)=(2)-(1) All Losses* Less Catastrophe	(4)=(1)/(3) Catastrophe Ratio	(5) Capped Catastrophe Ratio **	(6)=(4)-(5) Excess Spread to 50 Years
3/31/1994	-	188,472	188,472	0.000	0.000	0.000
3/31/1995	4,407	260,325	255,918	0.017	0.017	0.000
3/31/1996	7,956	322,472	314,516	0.025	0.025	0.000
3/31/1997	18,236	170,684	152,448	0.120	0.120	0.000
3/31/1998	50,599	271,066	220,467	0.230	0.230	0.000
3/31/1999	3,260	142,036	138,776	0.023	0.023	0.000
3/31/2000	171,098	337,798	166,700	1.026	1.026	0.000
3/31/2001	3,191	94,583	91,393	0.035	0.035	0.000
3/31/2002	5,375	108,371	102,995	0.052	0.052	0.000
3/31/2003	10,735	82,023	71,288	0.151	0.151	0.000
3/31/2004	7,547	639,930	632,383	0.012	0.012	0.000
3/31/2005	47,763	435,321	387,558	0.123	0.123	0.000
3/31/2006	3,135	527,712	524,577	0.006	0.006	0.000
3/31/2007	63,040	424,905	361,865	0.174	0.174	0.000
3/31/2008	4,794	385,242	380,448	0.013	0.013	0.000
3/31/2009	828,515	1,339,396	510,881	1.622	1.180	0.442
3/31/2010	564,557	1,223,203	658,647	0.857	0.857	0.000
3/31/2011	42,715	670,384	627,668	0.068	0.068	0.000
3/31/2012	623,543	1,421,622	798,079	0.781	0.781	0.000
3/31/2013	-	1,381,323	1,381,323	0.000	0.000	0.000

Weighted Average\*\*\* 0.289

**Selected Catastrophe Factor:** 0.289

\* Losses shown are Undeveloped Accident Year Incurred Losses and ALAE.

\*\*\* Capped at 1.18 (2 standard deviations above the mean) with excess spread to 50 years.

**American Modern Select Insurance Company  
Arkansas  
Specialty Homeowners**

**Exhibit 8**

**Unallocated Loss Adjustment Expense**

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The ULAE Factor is calculated as a ratio to Incurred Loss and ALAE and is considered in the "loss" side of the indication.

**Consolidated American Modern Insurance Group Data**

<b>Calendar Year</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>ULAE Incurred</b>	12,288,732	8,611,126	2,723,316
<b>Adjusted Loss and ALAE Incurred</b>	521,315,563	501,701,035	686,413,201
<b>Ratio of ULAE to Incurred Loss &amp; ALAE</b>	2.4%	1.7%	0.4%
<b>2 Year Average</b>			1.1%
<b>Selected ULAE Factor</b>			<b>1.011</b>

**Determination of Permissible Loss Ratio**

	Calendar Year					Budget	Selected
	2007	2008	2009	2010	2011	2012	
(1) Pre-Paid Commissions	20.1%	18.6%	18.2%	17.7%	17.9%	17.8%	17.8%
(2) Contingent Commissions	3.2%	1.9%	2.9%	1.9%	1.5%	1.5%	1.5%
(3) Other Acquisition Expense	4.8%	4.7%	4.8%	4.4%	3.6%	4.4%	4.4%
(4) General Expense	13.6%	13.0%	13.1%	11.5%	9.5%	11.6%	11.6%
(5) Taxes, Licenses and Fees	2.8%	2.8%	2.8%	2.8%	3.1%		2.9%
(6) Reinsurance Expense						0.9%	0.9%
(7) Total Expense							39.1%
<b>Profit Loading Provision</b>							
(8a) After Tax Return on Equity Goal						15.0%	
(8b) Target Premium to Surplus Ratio						1.8:1	
(8c) After Tax Return on Premium [(a)/(b)]						8.3%	
(8d) After Tax Return Generated by Inv Income						1.2%	
(8e) After Tax Return Needed From Underwriting Profit [(c) - (d)]						7.1%	
(8f) Before Tax Return Needed from Underwriting Profit [(e)/(1.00 - .35)]						10.9%	
(8g) Selected Profit Provision							10.9%
(9) Total Expenses and Profit Provision [(7) + (8)]							50.0%
(10) Permissible Loss & LAE Ratio [(1.000 - (9)]							50.0%
(11) Fixed Expense Ratio (100% of Reins Expense)							0.9%
(12) Variable Expense Ratio							49.1%

Data applied to calculate commission ratio:	Calendar Year				
	2007	2008	2009	2010	2011
AMS Arkansas Specialty Homeowners Wr Prem	457	143,480	261,716	436,141	651,527
AMS Arkansas Specialty Homeowners Pd Comm	92	26,758	47,551	77,093	116,650

Data applied to calculate Taxes, Licenses and Fees:	Calendar Year				
	2007	2008	2009	2010	2011
AMS Arkansas Written Premium from all AS Lines	848,581	1,238,173	1,324,449	1,797,927	2,159,118
AMS Arkansas Taxes, Licenses & Fees from all AS Lines	23,675	34,545	36,952	50,702	67,364

## Investment Income Calculation

### Estimated Investment Earnings on Unearned Premium and Loss Reserves

<b>A. Unearned Premium Reserve</b>		
(1)	Direct Earned Premium for 2011	\$ 465,644,966
(2)	Mean Unearned Premium Reserve Ratio	46.5%
(3)	Mean Unearned Premium Reserve (1) x (2)	\$ 216,294,522
(4)	Deduction for Prepaid Expenses and Federal Taxes Payable	
(a)	Commission	19.3%
(b)	50% of Other Acquisition	2.2%
(c)	50% of General Expenses	5.8%
(d)	Taxes, Licenses, and Fees	2.9%
(e)	Reinsurance Expense	0.9%
(f)	Subtotal	31.1%
(g)	Federal Taxes Payable	7.0%
(4T)	Total Deductions	38.1%
(5)	Unearned Premium Reserve Subject to Investment (3) x [1.0 - (4T)]	\$ 133,886,309
<b>B. Delayed Remission of Premium (Agent's Balances)</b>		
(1)	Agent's Balance or Uncollected Premium to Unearned Premium	
(a)	Average Agent's Balance	\$ 185,476,434
(b)	Direct Unearned Premium 2011 (All Lines)	\$ 502,468,432
(c)	Ratio (a) / (b)	36.9%
(d)	Direct Unearned Premium 2011 (ASLOB 4 - Homeowners)	\$ 262,435,853
(2)	Delayed Remission (1c) x (1d)	\$ 96,873,083
<b>C. Loss and Loss Adjustment Expense Reserve</b>		
(1)	Expected Loss and Loss Adjustment Expense Ratio	50.0%
(2)	Expected Losses and Loss Adjustment Expenses (A.1) x (C.1)	\$ 232,822,483
(3)	Percent of Mean Loss & ALAE Reserves to Incurred Loss & ALAE	
(a)	2011 Mean Loss & ALAE Reserve to Incurred Loss & ALAE Ratio	20.0%
(b)	2010 Mean Loss & ALAE Reserve to Incurred Loss & ALAE Ratio	26.6%
(c)	Average of Mean Loss Reserve to Incurred Loss Ratios $1/2 \times [(a) + (b)]$	23.3%
(4)	Expected Mean Loss Reserves (2) x (3c) x .958	\$ 51,929,684
<b>D. Net Subject to Investment</b>		\$ 88,942,911
(A.5) - (B.2) + (C.4)		
<b>E. Before Tax Rate of Return</b>		2.5%
[Exhibit 10, Page 2]		
<b>F. Average Rate of Return as a % of Direct Earned Premium</b>		0.5%
[(D) x (E)] / (A.1)]		
<b>G. Before Tax Investment Income Return (Including Surplus)</b>		1.9%
(F) + [(E) x (1.0/Premium to Surplus Ratio)]		
<b>H. After Tax Average Rate of Return as a Percent of Direct Earned Premium</b>		
(1)	Average Federal Tax Rate on Inv. Inc. (Exhibit 10, Page 2)	33.7%
(2)	After Tax Return Generated by Investment Income (G) x [1.0 - (H.1)]	1.2%

## Investment Income Calculation

### Average Federal Tax Rate on Investment Income

	(1) Investment Income 2009 - 2011 (A)	(2) Allocation	(3) Current Tax Rate (B)	(4) Total Tax (2)x(3)
Bonds				
- Taxable	\$79,106,546	93.9%	35.0%	32.9%
- Tax Exempt Municipal	\$3,369,190	4.0%	5.3%	0.2%
Stocks				
- Acquired Prior to 1987	\$0	0.0%	10.5%	0.0%
- Acquired After 1987	\$578,537	0.7%	14.2%	0.1%
Short Term Investments	\$1,167,269	1.4%	35.0%	0.5%
Total	\$84,221,542	100.0%		33.7%

#### Notes:

- (A) From American Modern Insurance Group Annual Statement, Part 1  
(B) Under the 1986 Tax Reform Act, 15% of formerly tax-exempt income from securities purchased after August 7, 1986 is now taxable. Thus the estimated effective tax rates in 2012 will be:

Ordinary Income =	35.0%
Tax Exempt Municipal - 35.0% x 15.0% =	5.3%
Stock Dividends (Acquired after 1987) - 40.5% x 35.0% =	14.2%
Stock Dividends (Acquired before 1987) - 30.0% x 35.0% =	10.5%

### Investment Income as a Percentage of Invested Assets

2000	5.0%
2001	5.2%
2002	5.2%
2003	4.5%
2004	4.3%
2005	4.4%
2006	4.5%
2007	4.6%
2008	4.4%
2009	2.6%
2010	3.2%
2011	3.0%
Twelve Year Average	4.2%
Latest Six Year Average	3.7%
Latest Year	3.0%
Projected 2012 (12 Year Trend)	2.9%
Projected 2012 ( 6 Year Trend)	2.4%

### Selected 2012 Rate of Return

Before Tax	2.5% *
After Tax [(1-0.337) x 2.5%]	1.7%

\* 2.5% selected based on change in investment philosophy due to the purchase of the American Modern Insurance Group by Munich Re. Specifically, Munich Re requires that investments for companies owned should not have "risk". This leads to a lower rate of return than we've seen in the past.

## By Line Explanation of Investment Income Calculation

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### Line A-1

Direct Earned Premium is total limits earned premium for the captioned program written by the American Modern Insurance Group for the latest accident year.

### Line A-2, A-3

The mean unearned premium reserve is determined by the average of the latest two years unearned premiums for the American Modern Insurance Group.

### Line A-4

Deductions for prepaid expenses:

Production costs and a large portion of other company expenses connected with the writing and handling of insurance policies, exclusive of claim adjustment expenses, are incurred when the policy is written and before premium is paid. Therefore, the deduction of these expenses is determined by use of provisions for expenses used in our ratemaking procedures as shown. These provisions are based on the above referenced company's data as shown in Exhibit 9.

### Line A-4 Federal Taxes Payable

The Tax Reform Act of 1986 taxes 20% of the unearned premium reserve. At a corporate tax rate of 35%, this tax equals 7.0% ( $.20 \times .35 = .070$ ) of the unearned premium reserve.

### Line B-1

Delayed remission of premium:

This deduction is necessary due to the delay in collection and remission of premium to the company beyond the effective dates of the policies. Funds for the unearned premium reserve required during the initial days of all policies must be taken from the company's surplus, and are not available for investment.

### Line B-1(c)

Average agent's balances as a percentage of 2011 Direct Unearned Premium (All Lines)

### Line C-1

The expected loss and loss adjustment ratio reflects the expense provisions used in the filing. See Exhibit 9.

### Line C-3

Mean loss reserve are determined by averaging the reserves at the beginning and ending of the year in question, and dividing by that year's loss and loss adjustment expenses. This ratio is based on countrywide data for the American Modern Insurance Group countrywide data for the American Modern Insurance Group.

### Line C-4

The expected mean loss reserve is determined by multiplying the expected incurred losses in Line C-2 by the average ratio of the mean loss & loss adjustment reserves to the incurred losses & loss adjustment expenses from Line C-4. Then an adjustment for the estimated Federal Income Taxes payable due to discounting of loss reserves is added. The estimated reserve discount is 12% (based on all company data provided by the A.M. Best Company), the federal taxes payable (expressed as a % of reserves) is 4.2% ( $.12 \times .35 = .042$ ), and the appropriate adjustment is .958 ( $1.000 - .042 = .958$ ).

### Line E

This rate of return in the ratio of net investment income earned and net realized capital gains (or losses) to mean cash and invested assets (including interest, dividends and real estate income due and accrued) for the American Modern Insurance Group.

### Line H-1

The average rate of Federal Tax was determined by applying the appropriate tax rates to the distribution of investment income earned for 2009 - 2011 for the American Modern Insurance Group. See Page 2 of this exhibit.

### Complement of Credibility Calculation

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	HO-10
(1) Permissible Loss & LAE Ratio	0.500
(2) Proposed Renewal Effective Date	1/1/2014
(3) Effective Date of Current Rates	12/24/2011
(4) Time Period in Years $\{[(2) - (3)] / 365\}^{**}$	1.000
(5) Annual Premium Trend	3.0%
(6) Annual Loss Trend	-1.0%
(7) Ann Loss Ratio Trend $\{[1 + (6)] / [1 + (5)] - 1\}$	-3.9%
(8) Selected Trend Factor $\{[1 + (7)] ^ (4)\}$	0.961
(9) Complement of Credibility = $\{(1) * (8)\}$	0.481

\*\* Capped at a minimum of 0.5 and a maximum of 1 year(s)